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Recommendations of the Board of Auditors

UNOPS: Report on the implementation of the recommendations of the Board of Auditors for the biennium 2006-2007

Summary

United Nations Office for Project Services (UNOPS) is pleased to respond to the recommendations made in the report of the Board of Auditors for the biennium ended 31 December 2007.

The present document summarizes the current status of issues relevant to those recommendations and the UNOPS management plan to address them, including actions yet to be fully implemented.

Elements of a decision

The Executive Board may wish to take note of the report on the implementation of the recommendations of the United Nations Board of Auditors for the biennium 2006-2007, and acknowledge the progress made since the release of the audit report for the biennium ending 31 December 2005.

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I. UNOPS summary response to the United Nations Board of Auditors

A. Background

1. As a self-financing entity of the United Nations system, UNOPS is developing and implementing business practices to encourage widespread recognition of the organization as a world-class service provider. In so doing, UNOPS management appreciates that the organization must remain sufficiently agile, and flexible to accommodate client needs which can rapidly change in response to world events. UNOPS must maintain sound, internal control systems and keep its financial house in order; it must manage itself as an efficient business, including measures that ensure its viability and maintain its operational reserve.

B. Current challenges and measures that address them

2. The report of the United Nations Board of Auditors for the 2004-2005 biennium contained seven matters of emphasis on nine major issues. During the 2006-2007 biennium, UNOPS reduced the matters of emphasis to three, namely, the unreconciled interfund amounts (the bulk of which are with UNDP); deferred revenue; and non-expendable assets. The financial situation of the organization has improved significantly over the course of those two biennia: the level of operational reserves increased six-fold from the former biennium to the latter. This occurred despite the fact that in the 2006-2007 biennium UNOPS made exceptionally high 'bad-debt' provisions covering sizeable losses from prior periods, and made full accrual for all end-of-service liabilities, including after-service health insurance. As of December 2007 UNOPS reserves were within $10 million of full replenishment, representing an addition of some $21 million to that account during the 2006-2007 biennium.

Issues to watch and risks to mitigate

3. The current global financial crisis may affect near-term requests for UNOPS services. UNOPS will monitor the situation carefully and take steps to lessen the potential impact of the crisis on affected or relevant revenue streams.

4. The 'profit margins' of the organization are deliberately kept quite low (to provide maximum value to clients), even when its 'market' would bear higher overhead percentages. UNOPS will continue to reduce its overhead rates (currently the global average is 5.3 per cent) while making sure that revenue earned remains adequate to cover costs and contribute to the operational reserves.

5. Nevertheless, a few unforeseen catastrophic events (such as a major lawsuit) could potentially reverse the gains of the last two years. To protect against such a possibility, UNOPS has taken the following initiatives: it has purchased several corporate insurance policies and established a new internal control framework emphasizing risk mitigation; and it has initiated a number of business policies (under development) to address proper management of currency fluctuations as well as to explore the use of hedging and derivatives, among other instruments.

6. Tighter project management is needed to reduce or eliminate instances of project over-expenditure and to reinforce the corporate systems that monitor programme delivery and financial performance.

7. A number of measures to foster greater accountability and transparency have been put in place: a new, 'standardized' pricing policy is in use organization-wide; a 'financial dashboard' now monitors the financial performance of each business unit and each project manager; and UNOPS has stronger controls than ever before to manage project and administrative budgets. There are target agreements with each business unit and project manager. The introduction of a 'balanced scorecard' permits accurate tracking of unit performance. All managers are required to learn and practice the 'Prince2' project methodology. The Financial Regulations and Rules have been comprehensively revised and submitted for approval through the appropriate channels.

8. The unreconciled amount with UNDP as of the end of 2005 has been reduced from $69.6 million to $10.3 million. The 2006-2007 biennium balance was approximately $24 million, the lowest level ever, while the business volume with UNDP was the highest ever. Weekly interfund reconciliation meetings with UNDP are now the rule. More than half of the $24 million has already been adjusted, and work to reconcile the rest is ongoing. The aforementioned balance of $10.3 million is being negotiated with UNDP with a view to arriving at a settlement in the shortest time possible. However, it should be noted that UNOPS has made full provision for the entire $10.3 million in its financial statements, so whatever the outcome of negotiations (the latest offer from UNDP was $4 million) it will result in a net contribution to the UNOPS reserves.

9. As is the case with the interfund balance, deferred revenue is an inherited problem with virtually all unreconciled amounts dating from between 1998 and 2005. The issue was flagged by UNOPS management and brought to the attention of the Board of Auditors in the 2006-2007 financial statements. Work is well under way to complete the reconciliation exercise, although it may take another year to resolve the matter fully.

10. UNOPS made tangible improvements in its asset management systems in 2006-2007 but more remains to be done. New and completely revamped policies and procedures are being finalized with a target date for release of 30 November 2008. As of early 2009, UNOPS assets will be managed using enterprise resource planning. An 'assets dashboard' is being created and all relevant staff will be re-trained in assets management by the end of 2008. An effort is also on track to automate the proper tagging of assets. Taken together, those measures should adequately address the concern.

11. Staff retention remains a challenge. Due to recent uncertainty about the future of the organization, during 2006-2007 the staff attrition rate reached alarmingly high levels: between 25 and 30 per cent. This was exacerbated by the historic fact that many key posts at UNOPS had been classified during turbulent times at unrealistically low grades, providing personnel with an incentive to move to another United Nations organization, often to do the identical job but at a higher level. To correct this structural anomaly, several new policies have been promulgated dealing with succession planning, rotation, gender, recruitment, etc. Further innovative schemes are being considered, such as a corporate rewards and sanctions policy and the implementation of broadbanding, among others. In consultation with the United Nations Office of Human Resources Management, a post classification exercise is due for completion in early November 2008.

12. The implementation of the International Public Sector Accounting Standards represents a major hurdle for UNOPS, perhaps more so than for other United

Nations organizations, due to the self-financing status of UNOPS and the nature of its business. To address this, significant changes will be introduced to the way UNOPS recognizes different revenue streams. In addition, the organization has embarked on an ambitious change management programme, including the International Public Sector Accounting Standards as one of its five pillars. The conversion process is being accelerated, personnel with the proper competencies are being recruited and a personnel training programme is being finalized, with the first in a series of workshops for finance personnel and project managers scheduled for late November 2008. UNOPS realizes that implementation of the Standards is not a 'finance issue' per se and is working to sensitize project managers to the forthcoming changes as part of their training.

II. UNOPS responses to the main recommendations of the United Nations Board of Auditors

13. The Board of Auditors provided 48 main recommendations of which three were matters of emphasis in the body of the financial report and audited financial statements, chapter 2, section 2.10, (a) to (UU). The present document offers a specific response to each of the 48 recommendations.

III. Conclusion

14. UNOPS is pleased to respond to the report of the Board of Auditors for the biennium ended 31 December 2007. Based on the series of improvements and developments that took place during the 2006-2007 biennium, and bearing in mind the high degree of dedication and commitment from all staff, UNOPS is turning the page on its historic problems and moving on to conquer new heights.

Annex 1.
Analysis of the status of implementation of the recommendations of the Board of Auditors for the biennium ended 31 December 2007

Department responsible	*Number of recommendations*	*Not accepted*	*Implemented or closure requested*	*In progress*	*Target date set*	*No target date*
Executive Office	6	—	—	6	6	—
Corporate Control Centre	25	—	—	25	25	—
Global Service Centre	4	—	—	4	4	—
Organizational Effectiveness Centre	3	—	1	2	3	—
Regional office(s)	10	—	—	10	10	—
Total	**48**	**—**	**1**	**47**	**48**	**—**

In paragraph 35 of its report for the biennium ended 31 December 2007,[1] the Board of Auditors reported that UNOPS agreed with its recommendation that UNOPS continue to monitor profit margins of all its projects.

15. A pricing and cost recovery policy was promulgated in February 2008. Regional directors and other managers have been instructed to adhere to that policy; exceptions must be approved by the Executive Director or the Deputy Executive Director. UNOPS management continues to monitor rigorously the profit margins on all new business acquired.

Department responsible: Corporate Control Centre
Status: Ongoing
Priority: High
Target date: December 2008

In paragraph 49, the Board of Auditors recommended that UNOPS obtain quarterly certificates from all its business units confirming the validity of all recorded unliquidated obligations.

16. UNOPS is developing quarterly closing procedures, and the certification process will be part of the closing process. The Finance Office is exploring the possibility of automating encumbrance accounting.

Department responsible: Corporate Control Centre
Status: Ongoing
Priority: High
Target date: December 2008

[1] *United Nations Office for Project Services: Financial report and audited financial statements for the biennium ended 31 December 2007 and report of the Board of Auditors; General Assembly, sixty-third session, supplement no. 5J* (A/63/5/Add.10).

In paragraph 55, the Board recommended that UNOPS clarify in its financial statements the appropriate accounting standards for revenue recognition that it has applied in its accounting policies.

17. All revenue recognition methods are being studied, and clarification on revenue recognition will be issued in conjunction with the adoption of the International Public Sector Accounting Standards. A training workshop for all finance staff is planned for November 2008 to discuss, inter alia, issues relating to revenue recognition, and to obtain feedback from stakeholders.

Department responsible:	Corporate Control Centre
Status:	Ongoing
Priority:	High
Target date:	June 2009

In paragraph 61, the Board of Auditors recommended that UNOPS review its accounting policies regarding revenue recognition.

18. All revenue recognition methods are being studied, and clarification on revenue recognition will be issued in conjunction with the adoption of the International Public Sector Accounting Standards. A training workshop for all finance staff is planned for November 2008 to discuss, inter alia, issues relating to revenue recognition, and to obtain feedback from stakeholders.

Department responsible:	Corporate Control Centre
Status:	Ongoing
Priority:	High
Target date:	March 2009

In paragraph 81, the Board of Auditors recommended that UNOPS strengthen its processes at regional offices to ensure that all regional finance officers make use of financial reports in the Atlas system.

19. Access rights were given to all regional finance officers. A refresher training session will be held for senior finance staff to introduce them to the redesigned 'financial dashboard' and the various tools it offers to extract desired financial information.

Department responsible:	Corporate Control Centre
Status:	Ongoing
Priority:	High
Target date:	December 2008

In paragraph 89, the Board of Auditors reported that UNOPS agreed with its recommendation that UNOPS fund its operational reserve at the required level in a timely manner.

20. The required operational reserve is calculated at the rate of 4 per cent of the average combined programme and administrative expenditure of UNOPS for the previous three years. The actual UNOPS operational reserves for the year ended 31 December 2007 amounted to some $25.1 million, which is 72.1 per cent of the mandatory reserve balance. UNOPS is confident that operational reserves will be funded at the required level by December 2009.

Department responsible: Executive Office

Status: Ongoing
Priority: High
Target date: December 2009

In paragraph 96, the Board of Auditors reported that UNOPS agreed with its recommendation that UNOPS prepare an age analysis for contributions received in advance and expenditure incurred to be charged to clients.

21. The Finance Office has contacted the Atlas team to enquire whether such a report could be produced within the current Atlas configuration. Should that be unfeasible, relevant adjustments to the standard operating procedures will be made.

Department responsible: Corporate Control Centre
Status: Ongoing
Priority: High
Target date: December 2009

In paragraph 100, the Board reported that UNOPS agreed with its recommendation that UNOPS implement controls to regularly review and sign off on staff receivables and other receivable balances.

22. UNOPS is developing quarterly closing procedures, and the certification process will be part of the closing process. The Finance Office has started reviewing the last remaining accounts receivable and accounts payable balances.

Department responsible: Corporate Control Centre
Status: Ongoing
Priority: High
Target date: December 2008

In paragraph 103, the Board of Auditors reported that UNOPS agreed with its recommendation that UNOPS (a) develop a report in Atlas that categorizes 'accounts payable' account 21005 by creditor and provides related ageing information; and (b) implement controls to review overdue balances regularly.

23. The Finance Office has instructed the Atlas team to develop a report to analyse the accounts payable balance by creditor name. The work will be completed by the end of the first quarter of 2009.

Department responsible: Corporate Control Centre
Status: Ongoing
Priority: High
Target date: March 2009

In paragraph 109, the Board of Auditors reported that UNOPS agreed with its recommendation that the Asia-Pacific Office and the Middle East Office (a) implement procedures to ensure that financial data quality is monitored regularly and discrepancies are investigated; (b) assess their training needs; (c) request headquarters to perform data quality reports for calendar year 2006; and (d) follow up and correct all data quality errors as reflected in the 'financial dashboard' before the end of 2008.

24. A "dashboard owners' group" was established in March 2008 (with representation from each regional office) to resolve data discrepancy problems. The

training needs of regional offices are being reviewed, and a comprehensive training programme will be implemented by mid-2009.

Department responsible:	Organizational Effectiveness Centre
Status:	Ongoing
Priority:	High
Target date:	June 2009

In paragraph 110, the Board of Auditors recommended that UNOPS (a) always review budgets prior to approval; (b) always use the correct chart of accounts code; and (c) make no modification once a payment has been approved and posted.

25. UNOPS has introduced major improvements in this area since late 2007. Accounts payable, controls will be further strengthened and proper refresher training will be given to all finance staff in 2009 to prevent recurrence of such errors.

Department responsible:	Corporate Control Centre
Status:	Ongoing
Priority:	High
Target date:	December 2009

In paragraph 124, the Board of Auditors reiterated its recommendation that UNOPS reconcile its transactions and balances with UNDP on a regular basis.

26. A regular reconciliation process was put in place in the second half of 2007. A full-time accountant is now assigned to the UNDP interfund reconciliation. In addition, UNOPS intends to reach agreement with UNDP to settle fund balances in cash on a regular basis, not less frequently than every quarter.

Department responsible:	Corporate Control Centre
Status:	Ongoing
Priority:	High
Target date:	December 2009

In paragraph 125, the Board of Auditors recommended that UNOPS obtain confirmations of all its interfund balances as part of its financial statement preparation process.

27. UNOPS is developing quarterly closing procedures, and the confirmation exercise will be part of such closing procedures.

Department responsible:	Corporate Control Centre
Status:	Ongoing
Priority:	High
Target date:	March 2009

In paragraph 127, the Board of Auditors recommended that UNOPS, in collaboration with UNDP, settle interfund balances in cash, on a regular basis, in order to enforce regular reconciliations.

28. A regular reconciliation process was put in place in the second half of 2007. A full-time staff member was assigned to the UNDP interfund reconciliation. In addition, UNOPS intends to reach agreement with UNDP to settle fund balances in cash on a regular basis, not less frequently than every quarter.

Department responsible: Corporate Control Centre
Status: Ongoing
Priority: High
Target date: December 2009

In paragraph 138, the Board of Auditors recommended that UNOPS (a) confirm interfund balances payable to or due from other United Nations organizations as part of the preparation of its financial statements and perform reconciliations of differences; and (b) follow up on the differences in the interfund balances with other United Nations organizations.

29. UNOPS is developing quarterly closing procedures, and the confirmation and settlement of fund balances will be part of such procedures.

Department responsible: Corporate Control Centre
Status: Ongoing
Priority: High
Target date: December 2009

In paragraph 179, the Board of Auditors reported that UNOPS agreed with its recommendation that UNOPS compile a formal plan for the implementation of the International Public Service Accounting Standards.

30. The Finance Office is collaborating closely with relevant teams of sister United Nations agencies to develop a formal plan for the implementation of the Standards. The process has taken longer than most other harmonization efforts owing to the unique business needs of UNOPS. UNOPS expects, before the end of 2008, to assign a dedicated staff member to lead the fine-tuning and implementation of the transition plan.

Department responsible: Corporate Control Centre
Status: Ongoing
Priority: High
Target date: December 2009

In paragraph 185, the Board of Auditors recommended that UNOPS (a) perform a detailed analysis of its exposure to currency fluctuations; and (b) identify methods of managing the foreign exchange risk.

31. Since UNDP handles all UNOPS treasury functions, UNOPS is in discussions with UNDP to address this issue. As an interim solution, in regions where exposure to currency fluctuation is relatively high, special (escrow-like) local bank accounts have been set up to mitigate related risk.

Department responsible: Corporate Control Centre
Status: Ongoing
Priority: High
Target date: June 2009

In paragraph 205, the Board of Auditors recommended that UNOPS ensure that the Middle East Office and the Asia-Pacific Office (a) implement policies to ensure that all operations centres submit, on a monthly basis, 'advances recoverable locally' ledgers in the required format and detail; and (b) include the review of advances recoverable locally as part of end-of-month procedures.

32. UNOPS is developing quarterly closing procedures, and the settlement certification process for advances recoverable locally will be part of those procedures. Additionally, owing to the new modality of handling imprest transactions (implementation of which is already under way), the need for advances recoverable locally will be greatly reduced.

Department responsible:	Corporate Control Centre
Status:	Ongoing
Priority:	High
Target date:	March 2009

In paragraph 219, the Board of Auditors reported that UNOPS agreed with its recommendation that UNOPS ensure that the Middle East Office, in conjunction with headquarters, (a) formulate a standard operating procedure that provides further guidance on finance roles and responsibilities among all business units in UNOPS; and (b) implement the monitoring and oversight mechanisms on Atlas at the regional level in relation to operations centres.

33. The administrative instruction on delegation of authority to finance staff, promulgated in early May 2008, resolved most of the ambiguity cited above. A forthcoming instruction on standard operating procedure will further clarify the issue.

Department responsible:	Organizational Effectiveness Centre
Status:	Ongoing
Priority:	High
Target date:	March 2009

In paragraph 224, the Board of Auditors reported that UNOPS agreed with its recommendation that UNOPS ensure that the Middle East Office implements processes to ensure that the standard operating procedures are approved and implemented as soon as possible.

34. UNOPS will develop a process to monitor and use standard operating procedures within the Middle East region, and will monitor its implementation on a regular basis.

Department responsible:	Middle East Office
Status:	Ongoing
Priority:	High
Target date:	March 2009

In paragraph 228, the Board of Auditors reported that the Middle East Office agreed with its recommendation that the Middle East Office clearly document and agree with the operations centres as to the circumstances when specific procurement services will be rendered by the Middle East Office Procurement Unit to the operations centres.

35. A clarification memo will be issued by the Global Service Centre.

Department responsible:	Global Service Centre
Status:	Ongoing
Priority:	High
Target date:	December 2008

In paragraph 232, the Board of Auditors reported that UNOPS agreed with its recommendation that UNOPS ensure that the Middle East Office at all times completes supplier performance evaluation reports in accordance with the requirements of the UNOPS Procurement Manual.

36. The relevant instructions will be reiterated to all procurement staff.

Department responsible:	Middle East Office
Status:	Ongoing
Priority:	High
Target date:	December 2008

In paragraph 237, the Board of Auditors reported that the Middle East Office agreed with its recommendation that the Middle East Office (a) maintain proper contract files; and (b) review contract files for completeness on a regular basis.

37. Procurement and logistics staff will be trained and UNOPS will update its Procurement Manual to reflect both requirements. In addition, as part of the closing process, procurement files will be sampled for completeness.

Department responsible:	Global Service Centre
Status:	Ongoing
Priority:	High
Target date:	March 2009

In paragraph 238, the Board of Auditors reported that the Middle East Office agreed with its recommendation that, at the end of a project, the operations centres apply strict rules for paperwork retention in a specific location.

38. All operations centres will receive instructions reminding them of the UNOPS records retention policy. Files will be sampled every year for compliance.

Department responsible:	Global Service Centre
Status:	Ongoing
Priority:	High
Target date:	December 2008

In paragraph 297, the Board of Auditors recommended that UNOPS (a) perform inventory counts and asset reconciliations on a regular basis; and (b) maintain proper records relating to asset counts performed.

39. This process has commenced, and all offices will be required to certify asset registers on a quarterly basis. In addition, UNOPS will begin using the Atlas fixed-assets module in January 2009.

Department responsible:	Corporate Control Centre
Status:	Ongoing
Priority:	High
Target date:	March 2009

In paragraph 305, the Board of Auditors reported that UNOPS agreed with its recommendation that UNOPS (a) roll out the asset management module in Atlas to all regional offices; and (b) ensure that all relevant staff receive appropriate training prior to using the module.

40. UNOPS is configuring the Atlas fixed-assets module. The system should be ready for use in January 2009, and all staff will be trained in its use.

Department responsible:	Corporate Control Centre
Status:	Ongoing
Priority:	High
Target date:	March 2009

In paragraph 316, the Board of Auditors reported that the Middle East Office agreed with its recommendation that the Middle East Office, in conjunction with all relevant operations centres, (a) identify assets that are required for project purposes and transport them to the project sites as soon as possible; (b) identify assets that no longer meet the project requirements, and implement a process to dispose of those assets in a timely manner; (c) return funds to donors after selling project assets; (d) implement controls to monitor and prevent project assets from being stored in a warehouse for extended periods of time; and (e) raise a liability for amounts to be refunded to donors.

41. This process has begun and is expected to finish by March 2009.

Department responsible:	Regional offices
Status:	Ongoing
Priority:	High
Target date:	March 2009

In paragraph 322, the Board of Auditors reported that UNOPS agreed with its recommendation that UNOPS (a) agree with relevant donors to allow the regional office to sell obsolete project assets and refund the money to the project; (b) implement controls over project assets stored in warehouses to ensure that project assets are utilized for project activities only; (c) together with operations centres, implement controls to enable project managers to better oversee assets purchased against project funds; (d) investigate the circumstances surrounding the misuse of project funds that allowed the purchase of project assets for use by the administration; and (e) make an accounting entry to reverse the cost of assets purchased (and the related revenue) under projects.

42. This process has begun and should be completed by March 2009.

Department responsible:	Regional offices
Status:	Ongoing
Priority:	High
Target date:	March 2009

In paragraph 326, the Board of Auditors recommended that UNOPS reconcile the opening balances with the closing balance as reported in its 2004-2005 financial statements.

43. This exercise will be part of the asset register clean-up process. Once assets have been uploaded to the Atlas module, the reconciliation process will be automated.

Department responsible:	Corporate Control Centre
Status:	Ongoing
Priority:	High

Target date: March 2009

In paragraph 330, the Board of Auditors reported that UNOPS agreed with its recommendation that UNOPS provide the authorized staffing table to each regional office on an annual basis.

44. UNOPS implemented this procedure in January 2008.

Department responsible: Organizational Effectiveness Centre
Status: Fully implemented
Priority: High
Target date: Not applicable

In paragraph 345, the Board of Auditors recommended that UNOPS take appropriate action when delays are experienced in finalizing appointments.

45. In May 2008 UNOPS issued an organizational directive on recruitment, which includes standard operating procedures on timeliness of recruitment. Rigorous monitoring procedures are now in place.

Departments responsible: Global Service Centre and Organizational Effectiveness Centre
Status: Ongoing
Priority: High
Target date: December 2008

In paragraph 366, the Board of Auditors recommended that UNOPS, in conjunction with regional offices, review its approach to project management and ensure that a uniform system is implemented (where possible) within the UNOPS organizational structure.

46. A follow-up review of project management uniformity will be conducted by the Organizational Effectiveness Centre in the last quarter of 2008.

Department responsible: Regional offices
Status: Ongoing
Priority: High
Target date: December 2008

In paragraph 384, the Board of Auditors recommended that UNOPS (a) implement controls to ensure that advance spending is incurred in compliance with its advance financing policy; and (b) make appropriate disclosure of debtors in respect of advance funding and/or financing.

47. Implementation is well under way and compliance will be monitored at regular intervals, but not less frequently than quarterly. Revised procedures are being put in place to reduce the number of approved advance financing requests significantly.

Department responsible: Corporate Control Centre
Status: Ongoing
Priority: High
Target date: December 2008

In paragraph 406, the Board of Auditors reported that UNOPS agreed with its recommendation that UNOPS take further steps to (a) ensure that the status of

projects is regularly monitored and accurately reflected in Atlas; and (b) urgently complete the project closure exercise.

48. UNOPS has made steady progress in this area. All project budgets will be monitored on a monthly basis via the redesigned 'financial dashboard' tool. The accountability of project managers and regional directors for cost overruns has been strengthened.

Department responsible:	Regional offices
Status:	Ongoing
Priority:	High
Target date:	March 2009

In paragraph 410, the Board of Auditors recommended that UNOPS collate and track all project expenditure against budgets on a cumulative and annual basis.

49. The new 'financial dashboard' will be configured to capture this information on a cumulative basis so that project managers have easy access to budget and project expenditure details.

Department responsible:	Corporate Control Centre
Status:	Ongoing
Priority:	High
Target date:	March 2009

In paragraph 418, the Board of Auditors recommended that UNOPS (a) address weaknesses in the data quality in Atlas; and (b) perform an in-depth analysis of all projects currently listed and identify those that need to be closed, and those that require or may require further funding.

50. UNOPS has conducted a 12-month-long effort to identify all projects that must be closed and has assigned a team to prepare final reports and close the projects operationally and financially. Completion of this exercise will take time, as contact must be made with original funding source(s) for these mostly very old projects.

Department responsible:	Corporate Control Centre
Status:	Ongoing
Priority:	High
Target date:	December 2009

In paragraph 422, the Board of Auditors recommended that UNOPS take urgent and strict measures to address the causes of the issues identified at the Afghanistan Operations Centre and remedy them.

51. The resolution of all historical issues relating to this recommendation is being pursued vigorously.

Department responsible:	Middle East Office
Status:	Ongoing
Priority:	High
Target date:	March 2009

In paragraph 427, the Board of Auditors recommended that UNOPS (a) regularly reconcile budgets as reported by operations centres with Atlas; (b) investigate and correct the reasons for the differences identified between

budgets and recorded expenditure; (c) offer additional training for staff at operations centres to enable consistent and accurate reporting; and (d) address the backlog in processing expenditure and disbursement by operations centres.

52. The reconciliation process is well under way. Staff will receive additional training and proper instructions to code costs accurately so that expenditure is always recorded according to budget line items.

Department responsible:	Corporate Control Centre
Status:	Ongoing
Priority:	High
Target date:	March 2009

In paragraph 434, the Board of Auditors recommended that UNOPS, in conjunction with the Middle East Office and the Asia-Pacific Office, (a) implement policies to hold project managers and operations centres more accountable for income delivery; (b) review budget-setting methods and controls to ensure that budgets set and agreed with clients are more in line with expected delivery; (c) improve monitoring controls at the Middle East Office over the performance of operations centres; (d) take steps against operations centres that have under-delivered; and (e) consider reducing administrative costs to make up for delivery shortfalls.

53. UNOPS has strengthened its budgetary process, and appropriate actions, such as monthly budget-versus-expenditure verification exercises, are taken regularly to make regional offices and operations centres more accountable for results.

Department responsible:	Executive Office
Status:	Ongoing
Priority:	High
Target date:	December 2008

In paragraph 442, the Board of Auditors reported that the Asia-Pacific Office agreed with its recommendation that the Asia-Pacific Office (a) develop and approve a business growth strategy; (b) adequately address the business risks associated with new areas of business; and (c) implement adequate monitoring control over project performance and progress against targets.

54. In line with the UNOPS business strategy for 2007-2009, business growth opportunities are regularly reviewed at corporate operations group meetings, and corrective actions are taken as required. A new pricing policy was issued in February 2008 to better manage financial risks associated with the increased levels of business acquisition and programme delivery. A revised project acceptance policy is being finalized.

Department responsible:	Executive Office
Status:	Ongoing
Priority:	High
Target date:	March 2009

In paragraph 448, the Board of Auditors recommended that UNOPS improve its controls so that (a) project-level system controls are improved, which would help in the detection and control of overspending; and (b) project budgets are monitored on a regular basis to ensure that budgets are not exceeded.

55. Please refer to the comments in paragraph 53, above.

Department responsible:	Regional offices
Status:	Ongoing
Priority:	High
Target date:	March 2009

In paragraph 452, the Board of Auditors reported that the Asia-Pacific Office agreed with its recommendation that the Asia-Pacific Office (a) monitor projects on a regular basis; (b) enhance supervision of project managers whose projects reflect a pattern of low delivery; and (c) review budget-setting methods and controls to ensure that the budgets agreed with clients are more in line with expected delivery.

56. Please refer to the comments in paragraph 53, above.

Department responsible:	Regional offices
Status:	Ongoing
Priority:	High
Target date:	March 2009

In paragraph 457 the Board of Auditors reported that the Asia-Pacific Office agreed with its recommendation that the Asia-Pacific Office produce reports when this is required by a memorandum of understanding.

57. UNOPS has instructed regional finance officers that client reports must always be produced as stipulated in the memoranda of understanding. The Comptroller's Office will request a quarterly status report.

Department responsible:	Regional offices
Status:	Ongoing
Priority:	High
Target date:	March 2009

In paragraph 470, the Board of Auditors recommended that the Internal Audit Office (a) take measures to fully implement its workplan; and (b) increase the coverage of regional office, headquarters and financial statement audits.

58. UNOPS will implement the audit workplan fully, placing special emphasis on the operations of the regional offices and the auditing of corporate financial statements.

Department responsible:	Executive Office
Status:	Ongoing
Priority:	High
Target date:	March 2009

In paragraph 480, the Board of Auditors reported that UNOPS agreed with its recommendation that UNOPS, in conjunction with its Internal Audit Office, perform a quality assessment exercise to assist in the strengthening of the internal audit function.

59. The UNOPS Internal Audit Office is a member of the Institute of Internal Auditors and adheres to the Standards for the Professional Practice of Internal Auditing and the Code of Ethics. Standard 1300 directs that the Internal Audit

Office develop and implement a quality assurance and improvement programme, and this is ongoing. Standard 1312 states that, as part of that programme, the Internal Audit Office should have an external assessment conducted by a qualified, independent reviewer from outside the organization to assess all aspects of its activities and its effectiveness at least once every five years. The external assessment is scheduled for 2010.

Department responsible:	Executive Office
Status:	Ongoing
Priority:	High
Target date:	December 2009

In paragraph 485, the Board of Auditors recommended that UNOPS consider the establishment of an independent audit committee to strengthen the governance and oversight function.

60. This issue was examined by the Executive Board at its September 2008 session and subsequently addressed in the organizational directive on the UNOPS accountability framework. UNOPS is in the process of implementing its recently promulgated policy in this regard.

Department responsible:	Executive Office
Status:	Ongoing
Priority:	High
Target date:	December 2008

In paragraph 494, the Board of Auditors reported that UNOPS agreed with its recommendation that UNOPS implement the recommendation resulting from the Office of Internal Oversight Services review.

61. The majority of the recommendations made to date by the Office of Internal Oversight Services in its review conducted in September and October 2007 have been implemented. The few remaining issues will be addressed by the end of 2008.

Department responsible:	Corporate Control Centre
Status:	Partially implemented
Priority:	High
Target date:	December 2008

Annex 2.
Comments on the status of implementation of the recommendations of the Board of Auditors for the biennium ended 31 December 2005

Status of implementation of recommendations from prior periods considered not fully implemented in the annex to the report of the Board of Auditors for the biennium ended 31 December 2007

Department responsible	*Number of recommendations*	*Not accepted*	*Implemented or closure requested*	*In progress*	*Target date set*	*No target date*
Executive Office	3	—	—	3	3	—
Corporate Control Centre	12	—	—	12	12	—
Global Service Centre	—	—	—	—	—	—
Organizational Effectiveness Centre	—	—	—	—	—	—
Regional office(s)	5	—	—	5	5	—
Total	**20**	**—**	**—**	**20**	**20**	**—**

In paragraph 40 of its report for the biennium ended 31 December 2005,[2] the Board of Auditors reported that UNOPS agreed with its recommendation that UNOPS take steps to fund its operational reserve to the specified level in a timely manner. UNOPS would (a) monitor and track all the variables affecting the going-concern assumptions and (b) agree with the Executive Board on a time frame for rebuilding the operational reserve.

62. The required operational reserve is calculated at the rate of 4 per cent of the average combined programme and administrative expenditure of UNOPS for the previous three years. The actual UNOPS operational reserve for the year ended 31 December 2007 amounted to some $25.1 million, which is 72.1 per cent of the mandatory reserve balance. This represents a significant improvement in the financial position of UNOPS. UNOPS is on track to restore the operational reserve balance fully by the end of the biennium 2008-2009.

Department responsible: Executive Office
Status: Partially implemented
Priority: High
Target date: December 2009

In paragraph 45, the Board of Auditors recommended that UNOPS (a) improve its financial statement preparation process; and (b) submit certified financial statements for audit in a timely manner.

63. The complete set of financial statements for the biennium 2006-2007, together with schedules and notes, was provided to the Board of Auditors on time. In its audit report, the Board of Auditors commends UNOPS for the timeliness of the

[2] *United Nations Office for Project Services: Financial report and audited financial statements for the biennium ended 31 December 2005 and report of the Board of Auditors; General Assembly, sixty-first session, supplement no. 5J* (A/61/5/Add.10).

submission. The Board of Auditors had few comments on further improving the presentation of UNOPS statements.

Department responsible:	Corporate Control Centre
Status:	Partially implemented
Priority:	High
Target date:	March 2009

In paragraph 48, the Board of Auditors recommended that UNOPS fully reconcile and clear all suspense accounts in a timely manner.

64. Most suspense and clearing accounts carried forward from the previous accounting system have been investigated and cleaned up. The remaining balances will be liquidated by the end of the first quarter of 2009.

Department responsible:	Corporate Control Centre
Status:	Partially implemented
Priority:	High
Target date:	March 2009

In paragraph 50, the Board of Auditors reported that UNOPS agreed with its recommendation that UNOPS conduct ongoing reviews of its accounts payable balances and would (a) improve its financial statement preparation process; and (b) submit certified financial statements for audit in a timely manner.

65. A major project closure and clean-up exercise began in late 2007. As a first step, 3,600 UNOPS projects shown in the system as 'active' were analysed for activities during the past biennium, and about 2,100 projects were operationally or financially closed. Project staff and the finance team are preparing final technical and financial reports for the clients so as to complete refund or collection processes on all old project balances by the end of 2009.

Department responsible:	Corporate Control Centre
Status:	Partially implemented
Priority:	High
Target date:	December 2009

In paragraph 55, the Board of Auditors recommended that UNOPS analyse and reconcile account 21005.

66. UNOPS is implementing a new, customized report in Atlas that will allow the liquidation of such account balances in a timely manner. The report will provide details by creditor and age of the outstanding balance. UNOPS expects the report to be finished by the end of the first quarter of 2009.

Department responsible:	Corporate Control Centre
Status:	Partially implemented
Priority:	High
Target date:	March 2009

In paragraph 62, the Board of Auditors recommended that UNOPS review the recoverability of long-outstanding debtor balances.

67. As of June 2008, UNOPS had collected 75 per cent of its outstanding rental receivables. This means that at most 25 per cent of the $1.8 million bad-debt

provision made at the end of the biennium 2006-2007 might still be needed. The outstanding balances from other United Nations organizations are being resolved more slowly. UNOPS continues the clean-up exercise and aims to liquidate most outstanding balances by the end of the first quarter of 2009.

Department responsible:	Corporate Control Centre
Status:	Partially implemented
Priority:	High
Target date:	March 2009

In paragraph 67, the Board of Auditors recommended that UNOPS implement effective measures to collect all funds due to it and assess the recoverability of outstanding balances.

68. With regard to staff receivables, UNOPS has since June 2008 assigned a full-time staff member to perform the clean-up of outstanding balances. Details on the breakdown are available for the entire balance; about 25 per cent of such entries have been cleared so far. UNOPS expects the account balances to be current by the end of the first quarter of 2009.

Department responsible:	Corporate Control Centre
Status:	Partially implemented
Priority:	High
Target date:	March 2009

In paragraph 69, the Board of Auditors reported that UNOPS agreed with its recommendation that UNOPS implement controls to ensure that there are supporting documents for amounts disclosed in the annual financial statements.

69. Significant improvements have been achieved in maintaining and presenting documents to justify amounts disclosed in the current financial statements. The remaining work should be completed by the end of the first quarter of 2009.

Department responsible:	Corporate Control Centre
Status:	Partially implemented
Priority:	High
Target date:	March 2009

In paragraph 71, the Board of Auditors recommended that UNOPS credit balances on advance accounts be accounted for as a 'payable'.

70. The final financial statements for the biennium 2006-2007 were prepared in accordance with the above recommendation. In addition, UNOPS is developing a finance manual that will clarify the classification of balance-sheet accounts.

Department responsible:	Corporate Control Centre
Status:	Partially implemented
Priority:	High
Target date:	March 2009

In paragraph 95, the Board of Auditors recommended that UNOPS (a) reassess the recoverability of the UNDP debt of $9.9 million; (b) assess the adequacy of the $5 million provision raised for write-off; and (c) ensure that all interfund reconciliations are performed regularly.

71. During the biennium 2006-2007 the first-time acceptance rate for interfund transactions was as high as 98 per cent. By late 2007 reconciliations with UNDP became regular, and all outstanding items were promptly identified and followed up. Only some 6 per cent of the interfund items outstanding with UNDP relate to the biennium 2006-2007. UNDP has pledged to do its utmost to liquidate all outstanding interfund items by the end of 2008. UNOPS has made new interfund-related provisions during the biennium, and the total now stands at $14 million.

Department responsible:	Corporate Control Centre
Status:	Partially implemented
Priority:	High
Target date:	March 2009

In paragraph 109, the Board of Auditors reported that UNOPS agreed with its reiterated recommendation that UNOPS ensure that there is a reconciliation of prior-year unliquidated obligations. UNOPS would (a) reconcile the payroll with the general ledger on a regular basis to ensure that all payroll costs have been correctly allocated; (b) certify reconciliations at an appropriate level of seniority as proof of review; and (c) make specific year-end and biennium-end closing arrangements to validate differences.

72. In 2007 UNOPS moved to quarterly reviews of prior-year unliquidated obligations. In May 2008, revised guidelines on the review and closure of open purchase orders were issued to all operations centres. The recommendation will have been fully implemented in conjunction with the interim closure of 2008 accounts.

Department responsible:	Corporate Control Centre
Status:	Partially implemented
Priority:	High
Target date:	March 2009

In paragraph 120, the Board of Auditors reported that UNOPS agreed with its recommendation that UNOPS implement controls over project budgets to ensure that monthly reviews of project budgets and expenditure are completed.

73. As part of a drive to 'enhance internal controls', in 2007 new procedures and tools were put in place to monitor regularly project budgets and expenditures incurred. The 'dashboard', a customized project- and finance-monitoring tool, was substantially improved in early 2008 and now provides management and project staff with an overview and the details required to monitor project budgets closely. The tool provides reliable, timely, consistent and complete data. The next version of the 'financial dashboard' will include online client reporting, further improving timeliness and efficiency.

Department responsible:	Regional offices
Status:	Partially implemented
Priority:	High
Target date:	December 2008

In paragraph 123, the Board of Auditors reported that UNOPS agreed with its recommendation that UNOPS address cost monitoring of its projects.

74. UNOPS has made steady progress in this area. All project budgets are monitored on a monthly basis using the new 'financial dashboard' tool. UNOPS has

strengthened the accountability of project managers and regional directors for cost overruns.

Department responsible:	Regional offices
Status:	Partially implemented
Priority:	High
Target date:	March 2009

In paragraph 125, the Board of Auditors reported that UNOPS agreed with its recommendation that UNOPS obtain formal authorizations for budget increases on a timely basis.

75. In strengthening its internal controls, UNOPS introduced a procedure whereby updates to budgets can be effected only with written authorization from the client unless otherwise stated in the project agreement. Regular monitoring and corrective actions have eliminated budget overruns.

Department responsible:	Regional offices
Status:	Partially implemented
Priority:	High
Target date:	December 2008

In paragraph 130, the Board of Auditors reported that UNOPS agreed with its reiterated recommendation that UNOPS secure authorizations for excess project expenditures and revise budgets in a timely manner. UNOPS would remain focused on preparing budgets, and revisions thereto, on a basis more in line with realistic project delivery.

76. As of mid-2007 suggested modifications and updates to project budgets are reviewed against supporting documentation, such as amendments to memoranda of understanding, and revised budget figures must be authorized by regional finance officers.

Department responsible:	Regional offices
Status:	Partially implemented
Priority:	High
Target date:	December 2008

In paragraph 149, the Board of Auditors reported that UNOPS agreed with its reiterated recommendation that UNOPS develop a risk-based internal audit plan to provide assurance to the organization on financial procedures. UNOPS agreed with the additional recommendation that it take steps to implement the formation of an audit committee.

77. The Strategy and Audit Advisory Committee was created in the last quarter of 2007 and has met three times, in January, April and August 2008, with the fourth meeting scheduled for 20 November 2008. All five members are external to UNOPS and have agreed to work on a pro bono basis. The committee provides guidance and oversight to the UNOPS audit function and ensures that the organization employs sound risk-management practices. The committee monitors the timely completion of the compliance objectives set by the Executive Director and United Nations regulatory requirements, such as implementation of the International Public Sector Accounting Standards.

Department responsible: Executive Office
Status: Partially implemented
Priority: High
Target date: December 2008

In paragraph 169, the Board of Auditors reported that UNOPS agreed with its reiterated recommendation that UNOPS (a) update inventory records for all decentralized offices and reconcile all movements with the appropriate additions and disposals; (b) ensure that valid, accurate and complete opening balances are included in the Atlas system; and (c) provide the Board of Auditors with all documentation regarding the reclassification of assets.

78. UNOPS issued guidelines on asset management during the fourth quarter of 2007. A full-time staff member collects, reviews, updates and verifies the asset registers submitted by the regional offices and operations centres. A new, comprehensively revised policy on assets will be released by the end of November 2008. Major efforts have been made to ensure the accuracy and completeness of opening balances and of acquisitions and disposals made during the biennium. In recognition of the need for further improvements, UNOPS initiated the implementation of the Atlas asset module and creation of the 'assets dashboard'. That exercise will be completed by the end of the first quarter of 2009.

Department responsible: Executive Office
Status: Partially implemented
Priority: High
Target date: March 2009

In paragraph 176, the Board of Auditors recommended that UNOPS review purchase documentation to ensure that assets were recorded in the asset register.

79. During the fourth quarter of 2007, UNOPS revised its guidelines on asset management to improve the quality and completeness of data reported and to have the required information ready for upload into the asset module of the Atlas system. An expert on the asset module was identified and, as of mid-August 2008, has been helping UNOPS implement it and roll it out to all UNOPS offices. Also since April 2008, a full-time staff member has been collecting and reviewing data and assisting UNOPS offices in implementing the asset module. Required software modifications have been identified and related forms and reports have been designed.

Department responsible: Corporate Control Centre
Status: Partially implemented
Priority: High
Target date: March 2009

In paragraph 183, the Board of Auditors reported that UNOPS agreed with its recommendation that UNOPS perform regular physical asset counts to verify the existence of assets and the completeness and accuracy of the asset records. UNOPS also agreed with the recommendation to obtain confirmation from the storage company of all inventory items kept in storage.

80. The quarterly verifications are being carried out at the time of writing. UNOPS intends to use the Atlas asset module to track all inventory. All regional

offices will be instructed to report any discrepancies in the asset registers to headquarters.

Department responsible:	Regional offices
Status:	Partially implemented
Priority:	High
Target date:	December 2008

In paragraph 186, the Board of Auditors reported that the Asia-Pacific Office agreed with its recommendation that the Asia-Pacific Office, in consultation with UNOPS headquarters, identify, dispose and write off all non-expendable equipment assessed to be redundant or obsolete to ensure a fairer presentation of the non-expendable balances disclosed in the financial statements. UNOPS agreed with the recommendation that steps be taken to avoid any fruitless expenditure on photocopier rentals.

81. This was partially implemented in the second quarter of 2008, subsequent to the fieldwork performed by the Board of Auditors in January 2008. The full implementation status will be achieved by the end of 2008.

Department responsible:	Corporate Control Centre
Status:	Partially implemented
Priority:	High
Target date:	December 2008